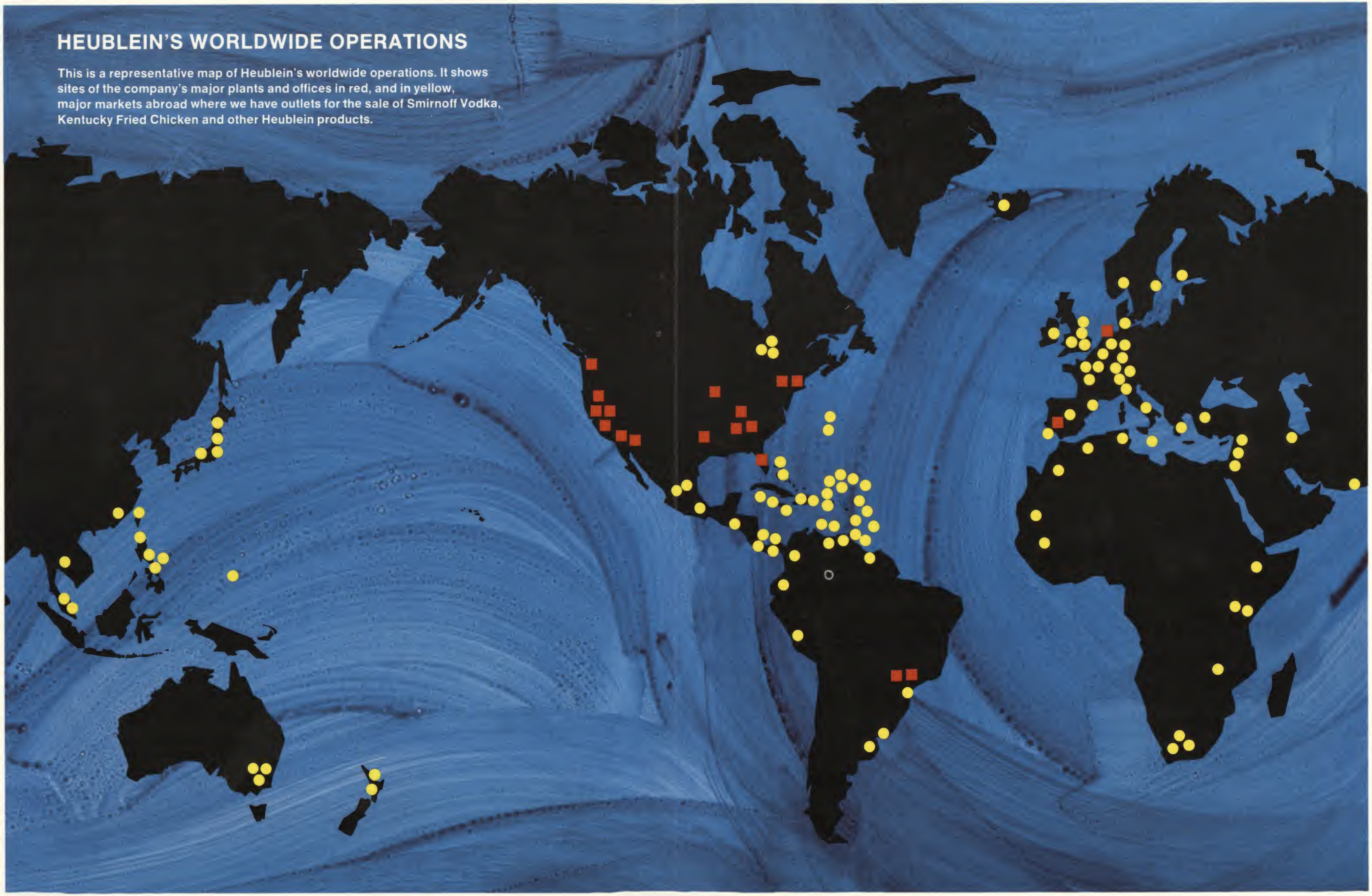
HEUBLEIN INC. 1973 ANNUAL REPORT

Heublein

HEUBLEIN'S WORLDWIDE OPERATIONS

This is a representative map of Heublein's worldwide operations. It shows sites of the company's major plants and offices in red, and in yellow, major markets abroad where we have outlets for the sale of Smirnoff Vodka, Kentucky Fried Chicken and other Heublein products.



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FINANCIAL HIGHLIGHTS

Years Ended June 30	1973	1972	Percent Increase (Decrease)
FOR THE YEAR:			
Revenues	**$1,004,646,000**	**$838,369,000**	**20%**
Income from continuing operations before provision for income taxes and extraordinary charge	93,173,000	78,524,000	19
Provision for income taxes	48,642,000	40,946,000	19
Income from continuing operations	**44,531,000**	**37,578,000**	**19**
Net income	**28,579,000**	**20,580,000**	**39**
Earnings per share:			
Continuing operations	**2.21**	**1.98**	**12**
Hamm's loss	(.11)	(.09)	22
Extraordinary charge	(.68)	(.81)	(16)
Net earnings	**1.42**	**1.08**	**31**
Cash dividends declared per common share	.91	.87	5
AT JUNE 30:			
Working capital	123,619,000	146,491,000	
Shareholders' equity	241,085,000	220,933,000	
Shareholders' equity – per common share	11.58	10.55	
Number of common shareholders	27,142	28,649	

Letter to Shareholders

The solid gains made in Heublein's business in 1973 are the result of the year's performance and prior years' planning. They are the outgrowth of years in which we set our goals with present performance and future purpose in mind.

This year Heublein's revenues crossed the billion-dollar mark for the first time in the company's 98-year history, increasing almost 20 per cent over last year.

Kentucky Fried Chicken Corporation, acquired just two years ago, exceeded our best expectations, topping last year's record revenues by more than 20 per cent.

Our Beverage Group increased its distilled spirits sales five times faster than the sales of the whole U.S. spirits industry. It now has four of the five fastest-growing liquor brands in the country.

The Beverage Group also took a major step toward consolidating future gains. A decision to sell the Theodore Hamm Company was reached at year's end because of continuing high costs of operation and severe competition from national brewers. A $13,800,000 net-of-tax provision was made to cover costs and losses, including operating losses in 1974 to the estimated date of the sale, and the operations of Hamm's have been excluded from the financial statements in this report.

The International Group, continuing its remarkable expansion, nearly doubled its record revenues of a year ago.

All this occurred in a year of unpredictable economic climate in the U.S. and abroad. U.S. Government controls worked to our disadvantage, by fixing wine prices while letting grape costs go free. California grapes, already in short supply because of damaging weather, commanded record prices. Devaluation of the dollar on two occasions called for prompt counteraction in our overseas business. As the fiscal year ended we were in a 60-day price freeze awaiting an uncertain Phase 4.

It was a true test of our management team. The operating groups and the supporting headquarters staff departments worked effectively together in providing leadership for a responsive and capable organization.

The Beverage Group accounted for nearly 60 per cent of the Corporation's sales and over 40 per cent of corporate profits. Spirits and wine sales showed broad gains. Smirnoff advanced at a rate that made it the second best-selling liquor in the country, according to industry sources. Yet Smirnoff is not the Beverage Group's growth leader. Four other brands are growing even faster.

United Vintners, our California wine company, increased its case sales 10 per cent and invested in broadening the market for its wine brands.

The Food Group, including KFC and the specialty foods of the Consumer Products Division, was the second largest contributor to corporate revenues, but first in profits. It had an expansive year in every way. It had more revenues, more earnings, more products, more retail stores, three healthy acquisitions and a fourth major one – the acquisition of Davis Food Service, Inc. – was consummated shortly after year-end.

KFC's wholly-owned poultry-producing companies proved a helpful hedge as poultry prices increased sharply in the changing economy.

In the success of any business, more often than not it's the steady, unheralded programs that make the difference. At KFC, programs that produced higher quality of product, services, management and accounting controls within the KFC company also served to accelerate similar progress among franchisees. Continuing improvement in franchisee relationships was evident in their greater participation in joint advertising and management training programs. This says better than words that our KFC company is supplying the fuel as well as the spark for growth of the KFC system.

Repeating its performance of a year ago, the International Group was the fastest growing part of our business this year. Its revenues increased more than four times faster than those of the whole corporation. At the beginning of the year there were 359 KFC stores overseas. By year's end there were 501. That's a new store opening almost every other day and expansion is continuing at that rate.

Three years ago our international operation consisted of a foothold in the liquor business, mostly in western Europe. Today the enterprise spans six continents and almost 100 countries. In several of these major markets Smirnoff sales grew by as much as 30 to 40 per cent this year. By acquiring Brazil's largest liquor company, the Drury, S.A. – Fabrizio Fasano Ltda. Group, Heublein gained solid entry into one of the fastest-growing markets.

Money, management and materials came under careful scrutiny throughout the year. We expended almost $37 million for new and improved facilities, and expect our needs will exceed that next year. There was added emphasis on management development to assure the quality of leadership required at the corporate, group and division levels.

Two other signs of Heublein's growth were manifest this year.

We moved our corporate office to new headquarters in Farmington, in the Greater Hartford area, according to a plan that allows for the Smirnoff Beverage and Import Company to expand into our former headquarters office.

We also restyled the company symbol in a more graphic and useful form, as shown on the pages of this report. The bold red block with the free-form lettering in the Heublein

name is the result of careful study and creative effort by professional design communicators. This new logotype will appear on all forms of Heublein communications throughout our world enterprise.

We devoted increasing amounts of time, effort and money to fulfilling our citizenship role in the communities where we operate and to society generally. The Heublein Foundation increased its gifts to education, health and welfare substantially and added a program for matching employees' gifts to colleges and universities. The success of the Metro glass, metal and cardboard recycling center, which we helped sponsor in Minneapolis, has made it a national model for combining the employment of handicapped people with a worthwhile ecology effort.

Looking to the future, we have high quality products that are almost universally popular, and increasingly so. We have a tradition of quality in our products and services that we continually strive to improve. We have a proven management team. We have up-to-date operation facilities located around the world geared for expansion as needed. And, we have the confidence that we can employ these resources to the fullest in capitalizing on our future opportunities.

We are, indeed, grateful to all who helped make this year a success, particularly our more than 16,000 employees in the U.S. and abroad whose dedicated efforts were instrumental in Heublein's continued progress. We are similarly appreciative of the valuable services provided by our Board of Directors and its Executive Committee, our shareholders, customers, distributors and the many skillful agencies that we employ to support our business efforts.

Sincerely,

Stuart D. Watson

Chairman
August 28, 1973

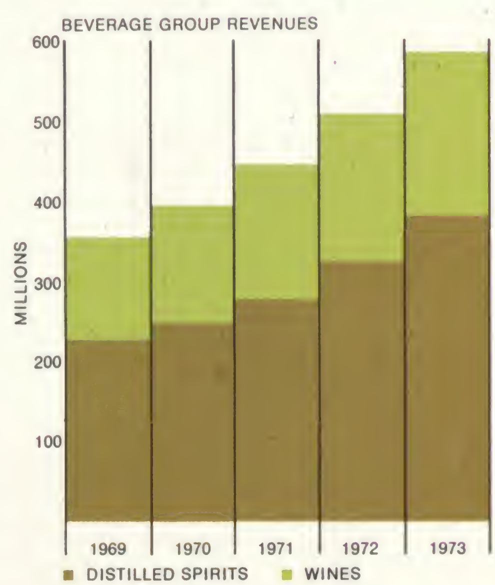

Smirnoff
ONE QUART
SMIRNOFF SILVER
VODKA
Smirnoff
90 PROOF
ONE QUART
SMIRNOFF
VODKA

"The Smirnoff Beverage and Import Company, largest and most profitable member of Heublein's Beverage Group, achieved a sales increase of 18 per cent, as case sales grew six times the industry average. These results demonstrate again that SBIC's brands benefit from consumers' increasing preference for light, flavorful drinks."

Growth of established brands, the addition of several promising new products, and the reorganization of the sales and marketing structure for greater effectiveness highlighted another record year for the Smirnoff Beverage and Import Company.

SBIC, the largest and most profitable member of Heublein's Beverage Group, achieved a sales increase of 18 per cent, as case sales grew six times the industry average. These results demonstrate again that SBIC's brands benefit from consumers' increasing preference for light, flavorful drinks.

To further capitalize on growth opportunities, SBIC's distilled spirits sales and marketing organization was realigned this year. These changes have resulted in better advance planning, more effective communications with field sales personnel and distributors, more meaningful market research and improved merchandising support.



Beverage Group

Because of the growing importance of the imported wine business to Heublein, responsibility for all the company's wine imports was assigned this year to Heublein Wines International, a new unit within SBIC. Among the imports handled by Heublein Wines International are such well-known brands as Harveys Bristol Cream, Lancers Rosé, Bouchard Pere & Fils Burgundies and Chateau St. Georges St. Emilion Bordeaux. HWI also handles marketing of the premium California wines of Beaulieu Vineyard, recognized by many consumers as equal to the finest imports.

Smirnoff Vodka achieved another milestone this year when it climbed from third to second in the industry's ratings of the nation's best-selling liquor brands.

Smirnoff's sales in the U.S. increased more than 10 per cent and now approach 4.7 million cases a year. Contributing to this growth was a series of ads that stressed Smirnoff's unusual versatility in a number of easy-to-make drinks.

In its first full year as a national brand, Smirnoff Silver, the 90.4 proof vodka for martini drinkers, exceeded projected sales. Advertising emphasis on the Smirnoff Silver Martini has increased the calls for all types of Smirnoff drinks, by name, in restaurants and bars.

Underscoring its status as a "now" drink, Smirnoff again sponsored two highly successful and widely publicized sports events – the Smirnoff World Pro-Am Surfing Championships in Hawaii, and the Smirnoff Sailplane Derby, a coast-to-coast race matching the world's top sailplane pilots. Both events resulted in extensive news coverage for Smirnoff.

The Popov and Relska brands of vodka continued their rapid growth of recent years, as each increased sales by more than 25 per cent. Combined, their sales are well in excess of two million cases a year. Heublein's vodka brands, in all, grew 50 per cent faster than the total vodka category in the U.S.

Canadian whisky is another of the fast growing spirits categories in the U.S., and Black Velvet is growing more than three times faster than the total category. With the highest sales growth rate of any major distilled spirit in the U.S., Black Velvet Canadian Whisky approached the million-case mark this year.


IMPORTED
HARVEYS
CREMA CAFFÈ
Irish Mist
Liqueur


Gancia
Asti
Gancia


BLACK VELVET
ONE QUART
IMPORTED
BLACK VELVET
HEUBLEIN COCKTAILS
FULL STRENGTH
HEUBLEIN
WHISKEY SOUR
HEUBLEIN COCKTAILS
HEUBLEIN
BRASS MONKEY


IMPORTED
LANCERS
Vinho Branco
IMPORTED
LANCERS

In the prepared cocktail business, the big news was made by the Brass Monkey, which replaced the Manhattan as the top-selling Heublein Cocktail.

Introduced two years ago and backed since then by a series of intriguing narrative advertisements, the Brass Monkey has become increasingly popular. The Brass Monkey and Heublein's newer proprietary cocktail, the Hobo's Wife, have increased interest in the entire bottled cocktail line, which registered a sales gain of more than 15 per cent.

Arrow Cordials had a growth rate twice that of all cordial sales in the U.S. Some of Arrow's gain resulted from broader distribution in many key markets, while completely new packaging was another factor in the brand's growth.

Another SBIC brand that is a leader in its class is Jose Cuervo Tequila, which is especially popular with young adults. This is partly due to the growing popularity of Mexican-style foods and entertainment. Matador Tequila, a lower-priced brand, also rode the same trends to substantial gains this year.

Strong gains were also recorded this year at the retail sales level by two more of SBIC's top quality imports, Irish Mist Liqueur and Don Q Rum.

Club Cocktails, the low-proof prepared cocktails in convenient 8-ounce cans, attained a record sales level of more than 600,000 cases. As consumer taste preferences change, new drinks are being added to the Club line.

Extensive research and consumer testing of numerous potential new SBIC products were conducted during the year. It's anticipated that several of these products will be introduced in the 1974 fiscal year.

SBIC also obtained several important new products through distribution agreements with overseas suppliers. They include two highly regarded brands of Scotch whisky – King's Ransom 12 Year Old Scotch and House of Lords 8 Year Old Scotch – which will make SBIC much more competitive in the expanding U.S. market for premium-priced Scotch.

Many of the imported wines handled by the new Heublein Wines International organization showed substantial gains for the year.

Extensive television and print advertising helped Harveys Bristol Cream strengthen its position as the nation's leading imported sherry. A promotion called "Strawberries and Cream," with Bristol Cream being the "cream," proved highly effective in boosting

sales in Florida and California supermarkets. Sales of other Harveys sherry and port wines also increased considerably.

Lancers Rosé, Heublein's popular import from Portugal, had a retail sales gain of about 10 per cent. Lancers was heavily advertised on top TV shows and also benefitted from a highly successful "Picnic Pack" promotion.

Lancers Vinho Branco, the companion white wine to Lancers Rosé, earned increasing consumer acceptance. Wider distribution was achieved in restaurants, supermarkets and package stores.

The U.S. marketing rights were obtained this year to three high quality brands of Italian wines – Gancia, Mirafiore and Sicilian Gold. With the increasing scarcity of top quality wines from France, there is a greater demand for Italian wines. The new brands give Heublein strong entries in that class.

The demand for Beaulieu Vineyard wines once again exceeded the supply. A 26-case lot of assorted Beaulieu wines commanded a bid of $10,125 at Heublein's Premiere National Auction of Rare Wines held this year in Atlanta. This typifies the esteem accorded these premium wines from California's Napa Valley.

United Vintners, Inc., Heublein's California wine subsidiary, increased its case sales 10 per cent this year, exceeding the growth rate of the California wine industry. The improved sales resulted mainly from a decision to invest more heavily in marketing and sales support for the company's major wine brands.

The total advertising and sales promotion investment was increased substantially over the preceding year to provide greater exposure for United Vintners' brands in magazines, newspapers, television, radio and other media. Management believes that strong, well-known brand names are the key to long term success in the growing U.S. wine market.

The decision to invest more heavily in marketing efforts, coupled with higher grape and packaging costs, affected United Vintners' profits this year. The smallest California grape crop in 35 years contributed to an increase of almost 50 per cent in grape costs. While grape costs rose, wine prices could not be increased correspondingly because of government controls.

In order to capitalize on increased consumer awareness of its brands, United Vintners strengthened its marketing and sales departments. Relationships with dis-

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tributors and wholesalers throughout the country continued to improve, and this helped in the broader distribution of United Vintners' products.

Among the better-performing brands this year were established brands such as Inglenook, Italian Swiss Colony and Lejon dry table wines, plus an exceptional newcomer in the "pop" wine category called Annie Green Springs.

Sales of Annie Green Springs for the year exceeded two million cases, making it one of the country's fastest-growing wine brands. Initially available in two popular flavors – Country Cherry and Berry Frost – Annie Green Springs is now offered in a third flavor known as Peach Creek. The unusually high ratings scored by Annie Green Springs in extensive consumer taste tests were instrumental in the decision to launch the brand nationally as quickly as possible, backed by strong introductory advertising.

In the premium California wine category, major gains were recorded by the wines of Inglenook Vineyards. Sales of Inglenook premium wines increased more than 50 per cent as broadcast and print commercials helped to widen consumer interest.

The high quality of Inglenook wines is indicated by the prices, comparable to those of the finest European vintages, which Inglenook commanded at the 1973 Heublein Premiere National Auction of Rare Wines in Atlanta. For instance, a 50-gallon lot of unbottled 1970 Inglenook Cabernet Sauvignon sold for $4,000.

Italian Swiss Colony dry table wines had a good year. A new series of television commercials increased consumer awareness of the Italian Swiss Colony brand and strengthened its quality image. Consistent with this, the bottles and labels were also improved.

The general outlook for the wine industry in the United States remains highly favorable. Adult per capita wine consumption is expected to increase from its 1971 level of 2.5 gallons to about 3.4 gallons by 1980, according to a recent industry study. In total, this will mean an increase from 305 million gallons a year to almost 500 million gallons. Dry table wines and pop wines are expected to make up the bulk of the gain.

In recent years competition in the California wine industry has become keener than ever before and is virtually certain to increase still further. With its long-established tradition of quality and its new and more aggressive management team, United Vintners is prepared to meet that challenge.

Results at Kentucky Fried Chicken Corporation show that America, indeed, loves what the Colonel cooks.

Revenues increased more than 20 per cent. New stores opened at the rate of about one a day, and this rate is expected to continue in 1974. There are now more than 800 company-owned KFC stores and about 3,000 franchised food service outlets in the United States, selling about 1,650,000 meals a day.

KFC sales increased throughout the year, especially in the last quarter with the introduction of a new advertising and marketing campaign that emphasized the "full meal" concept. The company also introduced new menu boards that promote the full meal idea, resulting in increased sales and greater profit margins.

Extra Crispy Chicken, introduced as a new product a year ago, moved into much broader distribution in 1973. It boosted sales 10 to 15 per cent in stores where it was sold. Extra Crispy is now sold in more than two-thirds of the nation's KFC stores and will be a standard menu item in all stores by the end of fiscal 1974.

KFC has more than doubled its new products development program. The company plans to bring out a new main meal item every two years and to develop a continuing flow of new side dishes, desserts, lunchtime entrees and prepackaged items for sale through KFC stores.

Looking to the future, all new KFC company-owned stores are being built to accommodate an expanded menu and seating facilities. The company is building prototype "new image" stores specifically designed for those purposes. Existing stores can be readily adapted to the new design, which will be thoroughly tested with consumers.

At year end, the company entered into an agreement to acquire Davis Food Service, Inc., a KFC franchisee with about 140 outlets in four southern and two midwestern states, and annual revenues of about $35 million. Davis has been steadily increasing its sales and profits and has additional potential for increasing the number of outlets and per-store sales.

With this acquisition, KFC Corporation owns and operates more than 800 stores.

Cooperation and mutual respect between the company and its franchisees continues to increase. Record numbers of franchisees attended the annual convention and company-sponsored seminars, and participated in joint promotions with the company. As a result, throughout the total KFC system there were substantial gains in product consistency, service and in remodeling and relocating stores.

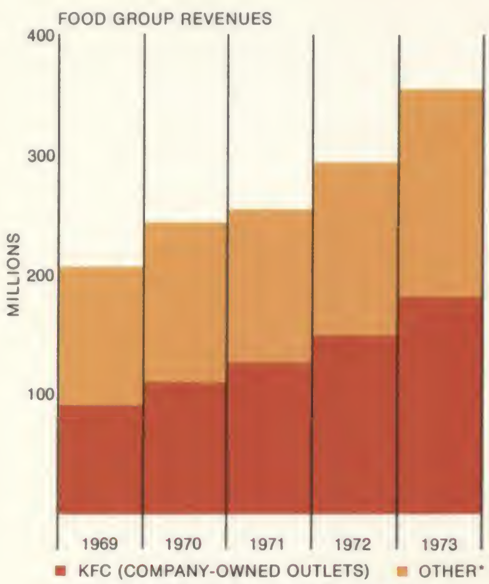
KFC now provides franchisees with greater assistance than ever before in marketing, advertising, operations and financial controls. Two-way communications between company and franchisees have been greatly facilitated by the National Franchisee Advisory Council that was formed last year.

KFC's poultry-producing subsidiaries helped partially to offset higher chicken costs at the KFC retail store level this year. By selling chickens that do not conform with KFC's size and premium grade requirements on the open market at the prevailing prices, these subsidiaries gave KFC Corporation a hedge against higher poultry costs.

A substantial increase in sales and profits was posted by another KFC subsidiary, Hart's, Inc., acquired last year. Hart's produces baked goods for about 80 per cent of all KFC outlets at its bakeries in Atlanta, Columbus and Dallas.

KFC's supply and distribution system was expanded with the opening of 12 new warehouses. Along with improved service and faster delivery, this supply system permits volume purchases that provide significant economies to both KFC and franchisees.

The first combined warehouse-commissary facility to serve both company and fran-



*Includes specialty food products, franchise fees and other fast-food related operations, no one class of which exceeds 10% of consolidated revenues.

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chised stores was opened this year in Dallas. Three more are planned in other areas.

The KFC concept of a high quality, convenient, fun-to-eat meal continues to prosper because of today's economic and social trends. In the language of market research, the "demographics are working for KFC."

For instance, one American in five moves each year. When people move, they continue to patronize the establishments they know. And research shows that KFC ranks at the top of the familiarity scale. Similarly, more working wives and greater affluence mean more business for the food service industry. By 1980, more than half of all U.S. wives will be gainfully employed and some 43 per cent of American families will have incomes of more than $15,000.

There are many other promising demographics:

– The 20 to 34-year-old population group, the heaviest users of convenience foods, is projected to grow by 36 per cent in the 1970's, adding 12 million potential KFC customers.

– Per capita consumption of chicken continues to increase and now stands at 47 pounds a year, nearly five times more than just 20 years ago. The outlook that this trend will continue is supported by KFC's research showing that consumers are willing to eat fried chicken more often than anyone had anticipated.

– Because one aspect of consumerism is an emphasis on pure and nutritious food, which is KFC's strength, this movement, too, favors KFC.

– In an era of price consciousness, chickens are by far the most efficient method of converting grain to meat protein and should continue to enjoy a significant price advantage compared to other meats.

Food service industry analysts believe that the industry's greatest growth years are ahead, particularly for major chain operations such as KFC.

The Consumer Products Division again contributed to the Food Group's progress, attaining a 9 per cent increase in sales. All its major brands performed well in a period marked by prolonged controversy over food prices and unusual competitive conditions among many of the major supermarket chains.

CPD's business-building activities this year included three separate phases.

The first was aimed at building the consumer franchises of the Division's existing brands. A principal aspect of this effort was

"The Consumer Products Division attained a 9 per cent increase in sales. All its major brands performed well in a period marked by prolonged controversy over food prices and unusual competitive conditions among many of the major supermarket chains."

to define more sharply the image and key elements of consumer appeal of all of the Division's products, and then to reemphasize these characteristics in advertising. Response to this effort was good.

The Division's leading brand, A.1. Steak Sauce, had a 7 per cent gain in sales this year and strengthened its position as the nation's number one steak sauce. A new A.1. television advertising campaign was developed, featuring Andy Griffith as the spokesman, and stressing A.1.'s leadership image. The new ads are being shown in prime time with some of the most popular TV shows. An imaginative new sweepstakes promotion offering the winners free meat for a month was both timely and successful.

Snap-E-Tom, CPD's spicy tomato-and-chile cocktail, had a 10 per cent gain for the year, aided by a new advertising position utilizing the slogan "It's One Snappy Tomato." Western and southwestern markets continued to account for the bulk of Snap-E-Tom sales.

Marketing strategy for Grey Poupon Dijon mustard involved a stronger appeal to gourmet-style cooks by putting greater emphasis on the brand's white wine ingredient in both the advertising and the packaging. Sales were up 15 per cent, well ahead of the total mustard market growth rate.

CPD continued to sell all the Ortega-brand chiles and sauces it could make, aided by the growing popularity of Mexican-style foods and a trend among some consumers toward more adventuresome dining. Sales increased 7 per cent as both Ortega plants operated at capacity. Work began on a major expansion of the plant in Douglas, Arizona, to meet the rising demand.

Regina Wine Vinegar, in its second full year of Heublein ownership, got strong support from advertising in Sunday newspaper supplements and a special money-saving coupon offer. Another product, Regina Cooking Wines, backed by a stronger promotional effort, showed a 27 per cent gain

The second phase of CPD's business-building program focused on new products. The Division introduced nationally in April a major new product called Steak Supreme. Aimed at a growing consumer audience seeking a mild and mellow taste, Steak Supreme complements A.1. Steak Sauce, which has a more robust flavor.

Another new product, A.1. Worcestershire Sauce, was introduced on a test market basis. Other potential new products are now under development.

The third phase involved development of a comprehensive program for expansion through acquisitions. This program is now more active than at any time in recent years.

Several programs were implemented this year to provide a more efficient and responsive form of organization. Operations were streamlined at Division headquarters in Hartford and a new plant management system was instituted at the large canning plant in Oxnard, California. An advisory council was formed of leading food brokers who handle distribution of CPD products. This council provides reliable, up-to-date data on changing conditions at the retail food store level.


MEETINGS
"It's finger lickin' good"
COLONEL SANDERS' RECIPE

Heublein Cocktails, made in Belgium, are popular with cafe patrons at the Grand Plaza in Brussels.

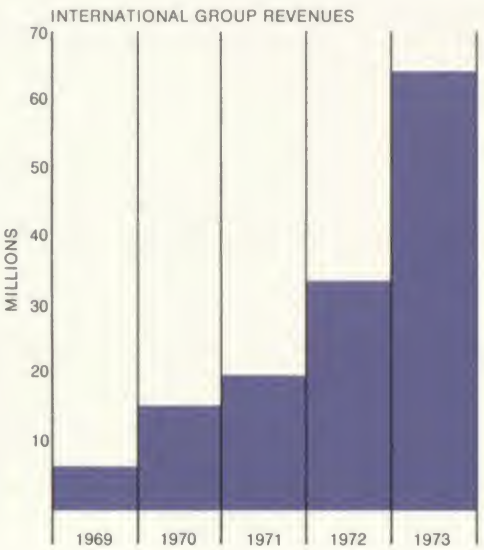
This was another exciting year for Heublein International, Ltd., which again posted the highest percentage gains in revenues and earnings of the three operating groups. Heublein International handles all Heublein products marketed abroad, including KFC outlets, direct exports from the U.S. and some products manufactured overseas.

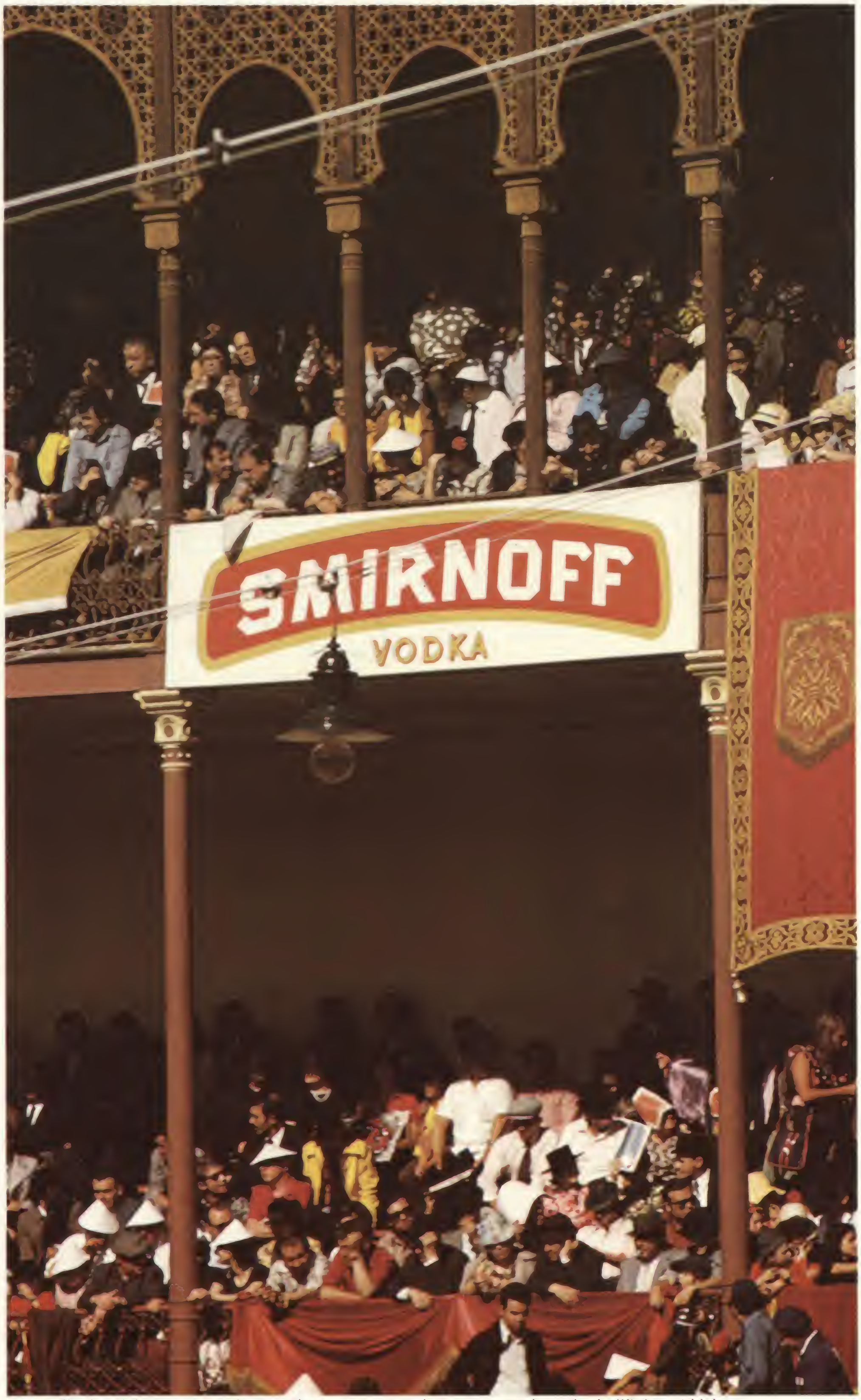
Sparked by the increasing popularity of Smirnoff Vodka and Kentucky Fried Chicken with consumers overseas, and by the acquisition of the largest liquor company in Brazil, Heublein International generated revenues this year of $64.6 million, a gain of 90 per cent over $33.7 million the prior year. Operating income more than doubled, rising from $3.6 million to $7.3 million.

In January, Heublein acquired the Drury S.A.-Fabrizio Fasano Ltda. Group in Brazil, a move that gives Heublein a very strong position in what economists say is one of the world's five fastest-growing markets.

The Drury-Fasano Group currently produces and markets 15 different brands of liquor and wine, covering a broad range of flavors and prices. The Group's whisky brands account for a major share of the fast-growing whisky market in Brazil.

The strong Drury-Fasano marketing team that accounted for much of that company's success will now add a number of Heublein's alcoholic beverage products to its sales program in Brazil. This team will also spearhead development of the Brazilian market for Kentucky Fried Chicken. Plans are being finalized for opening KFC stores in Rio de Janeiro and São Paulo.





Smirnoff advertising overseas frequently appears at major events, such as the bullfights at Lisbon.

These are among the popular brands marketed in Brazil by Heublein's subsidiary, Drury S.A.-Fabrizio Fasano Ltda.

Smirnoff is served aboard many international flights.

Kentucky Fried Chicken continued to expand substantially this year in Japan, England, Australia, New Zealand and other major international markets. At year's end 501 KFC stores were doing business abroad compared to 359 a year ago. Col. Sanders' finger-lickin'-good chicken can now be purchased in more than 30 countries.

The fastest rate of growth occurred in Japan where the number of stores more than tripled during the year. There are now 75 KFC stores in Japan, with new ones projected to open at the rate of more than six a month in the coming year.

One of KFC's most fully developed markets is Australia, where more than 125 stores serve the relatively small population of 12.7 million people. New Zealand, with a population of three million, had only one KFC store a year ago. It now has seven.

In England, where the KFC operation was a joint venture, Heublein purchased full control this year. There are more than 175 KFC stores in England and further expansion is programmed by the company and franchisees.

There are 40 KFC stores operating in the Caribbean region. The first of many planned for Hong Kong opened towards the end of the fiscal year with great success.

The growing appeal of Smirnoff Vodka with overseas consumers was the other major factor in Heublein International's growth this year. Sales of Smirnoff by direct exports and through 32 licensees exceeded 2.5 million cases this year. Smirnoff sales abroad have had a compounded annual growth rate of 16 per cent for the past five years. In many markets, Smirnoff leads not only the vodka category, but the entire spirits industry.

Some of the brand's biggest sales gains were achieved in the United Kingdom, Mexico, Ireland, Denmark and Iran, all of which showed increases exceeding 25 per cent. This reflects the worldwide shift to light, white liquors, particularly vodka. By being the first established vodka brand in these markets, Smirnoff is in an excellent position to capitalize fully on this trend.

Heublein International has a joint marketing venture with J.M. da Fonseca, the producers of fine Portuguese wines, to develop the world market outside the U.S. for these wines. This year the joint venture posted a 20 per cent gain, as a result of new market penetration and increased marketing activities.

United Vintners' California wines made new inroads into overseas markets this year. California wines have traditionally received stiff competition from local wines and restrictive tariff barriers in many of these markets. Today, with higher prices on local wines, there is a growing appreciation for the quality of competitively-priced wines from California.

It is increasingly apparent that many of the major social trends in the United States are also taking place elsewhere in the world. The shift of population from rural to urban areas, growing numbers of working women, a substantial rise in family income and buying power, and above all, the desire to enjoy life more fully are almost universally evident.

Some economists say that more than 75 per cent of the total growth in consumer goods sales over the next decade will take place in countries outside North America.

Anticipating this, Heublein International, with strong entries in the spirits, wines and food categories, has moved aggressively to strengthen its position in major growth markets of the world.

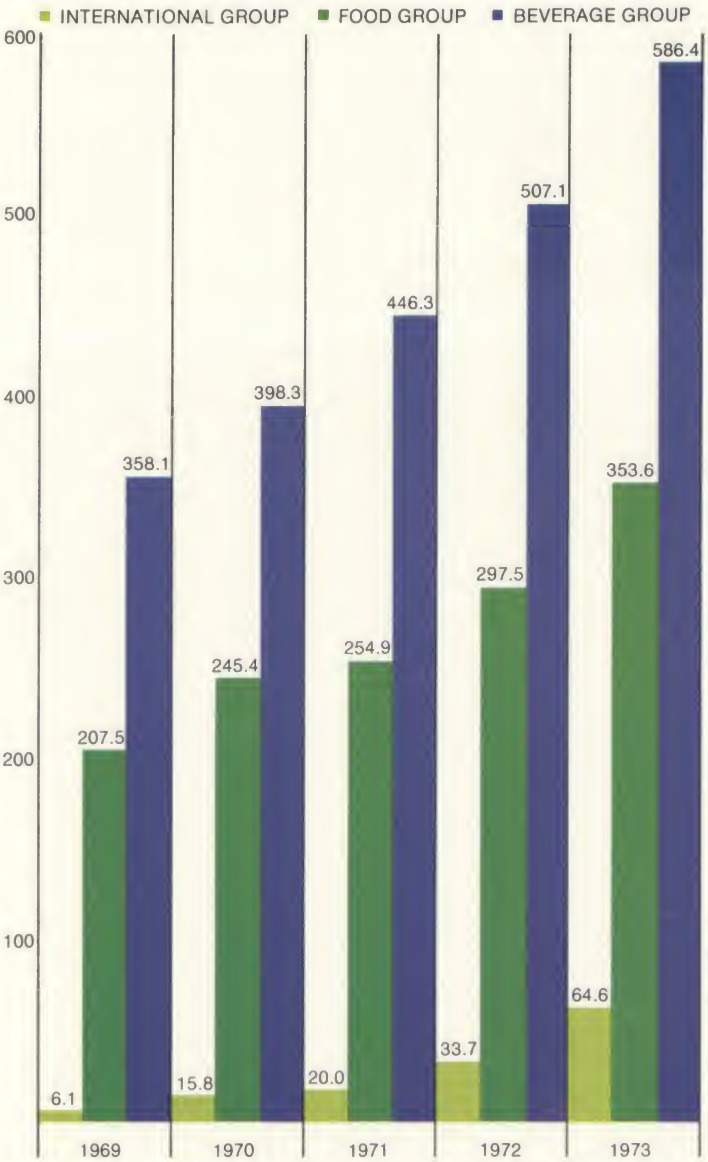
"Sparked by the increasing popularity of Smirnoff Vodka and Kentucky Fried Chicken with consumers overseas, and by acquisition of the largest liquor company in Brazil, Heublein International generated revenues this year of $64.6 million, a gain of 90 per cent over the prior year. Operating income more than doubled, rising from $3.6 million to $7.3 million."

The California wines of Beaulieu and Inglenook Vineyards drew bids comparable to the finest European wines at the 1973 Heublein Premiere National Auction of Rare Wines. Thousands of people attending prior tastings around the country, including this one at Atlanta's elegant Memorial Arts Center, had an opportunity to compare California wines with some of Europe's best.

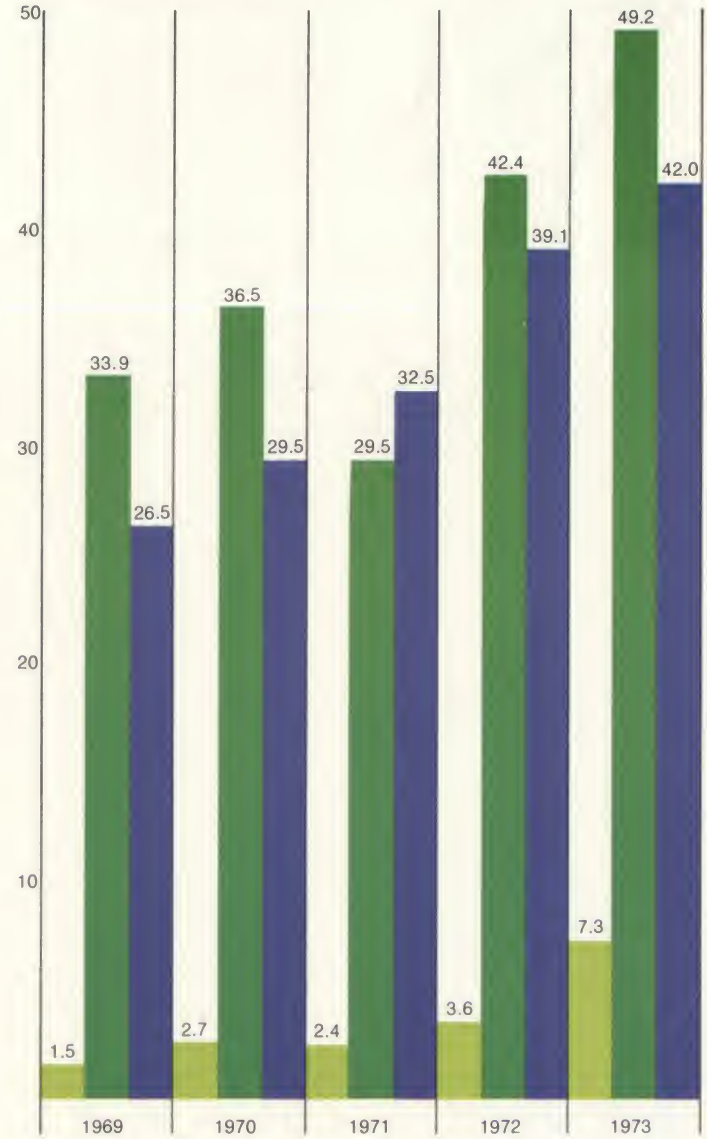
Heublein

Financial Statements

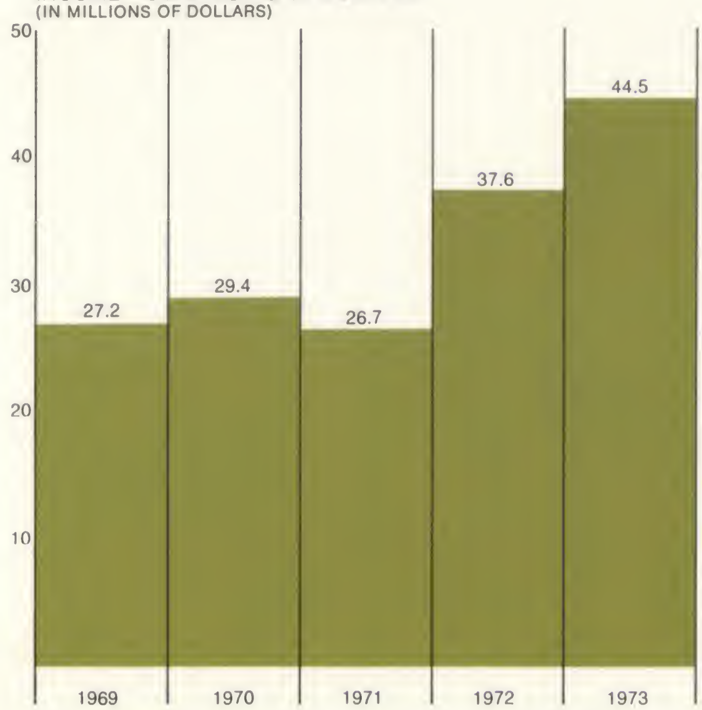
FIVE-YEAR REVENUES BY GROUP
(IN MILLIONS OF DOLLARS)



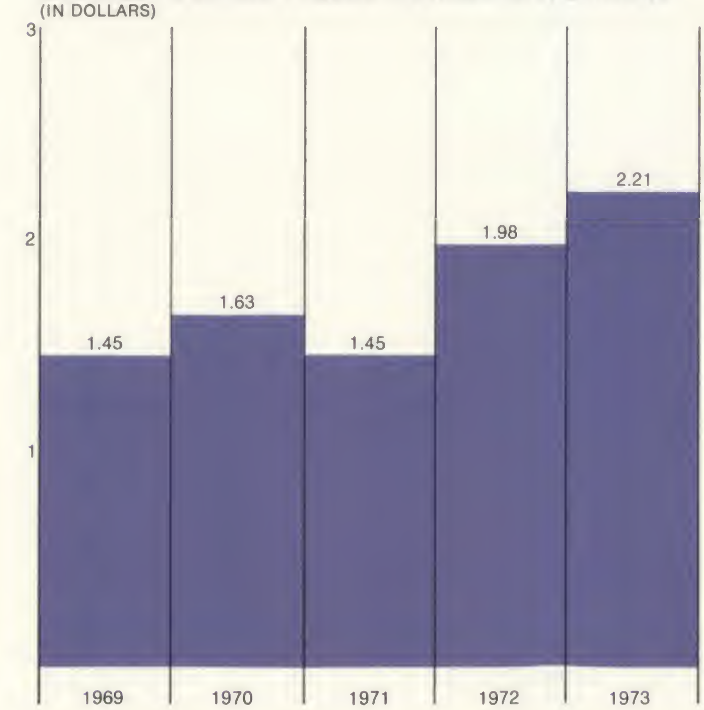
OPERATING INCOME BY GROUP
(IN MILLIONS OF DOLLARS)



INCOME – CONTINUING OPERATIONS
(IN MILLIONS OF DOLLARS)



EARNINGS PER SHARE–PRIMARY–CONTINUING OPERATIONS
(IN DOLLARS)



CONSOLIDATED STATEMENT OF INCOME

	Years ended June 30, 1973	1972
Revenues:		
Net sales	$ 981,678,000	$819,181,000
Franchise fees and other	22,968,000	19,188,000
	1,004,646,000	**838,369,000**
Costs and expenses:		
Cost of sales	699,242,000	583,405,000
Selling, advertising, administrative and general expenses	206,959,000	169,922,000
	906,201,000	753,327,000
Operating income	98,445,000	85,042,000
Other income (deductions):		
Interest expense	(6,303,000)	(7,585,000)
Interest income	1,564,000	661,000
Miscellaneous — net	(533,000)	406,000
	(5,272,000)	(6,518,000)
Income from continuing operations before provision for income taxes and extraordinary charge	93,173,000	78,524,000
Provision for income taxes:		
Federal and foreign	42,021,000	35,014,000
State	6,621,000	5,932,000
	48,642,000	40,946,000
Income from continuing operations	**44,531,000**	**37,578,000**
Hamm's operating loss, less tax effect	(2,152,000)	(1,748,000)
Income before extraordinary charge	42,379,000	35,830,000
Extraordinary charge, less tax effect	(13,800,000)	(15,250,000)
Net income	**$ 28,579,000**	**$ 20,580,000**
Earnings per share:		
Continuing operations	**$2.21**	**$1.98**
Hamm's loss	(.11)	(.09)
Before extraordinary charge	2.10	1.89
Extraordinary charge	(.68)	(.81)
Net earnings	**$1.42**	**$1.08**

See accompanying notes and summary of accounting policies.

CONSOLIDATED BALANCE SHEET

	June 30, 1973	June 30, 1972
ASSETS		
Current assets:		
Cash	$ 21,684,000	$ 15,744,000
Marketable securities	2,207,000	19,787,000
Accounts and notes receivable	114,274,000	103,902,000
Inventories at lower of cost (first-in, first-out) or market:		
Finished products	37,507,000	32,511,000
Products in process	8,507,000	7,416,000
Bulk whiskey and wine	61,825,000	54,541,000
Raw materials	17,001,000	15,195,000
Total inventories	124,840,000	109,663,000
Prepaid expenses	6,576,000	3,830,000
Total current assets	**269,581,000**	**252,926,000**
Investment in and advances to affiliated companies	**4,978,000**	**3,464,000**
Property, plant and equipment, at cost:		
Land and vineyards	26,843,000	21,605,000
Buildings	61,600,000	87,122,000
Machinery and equipment	91,616,000	124,733,000
Leasehold improvements	27,749,000	23,572,000
Wine tanker	6,974,000	6,974,000
	214,782,000	264,006,000
Less accumulated depreciation	72,724,000	120,709,000
	142,058,000	**143,297,000**
Other assets:		
Properties and other assets not used in continuing operations — net	25,070,000	19,126,000
Cost in excess of net assets of purchased businesses	48,208,000	18,568,000
Trademarks, contracts and franchises	2,306,000	6,830,000
Deferred income taxes	14,724,000	15,194,000
Other	12,131,000	12,023,000
	102,439,000	**71,741,000**
	$519,056,000	**$471,428,000**

See accompanying notes and summary of accounting policies.

	June 30, 1973	June 30, 1972
LIABILITIES		
Current liabilities:		
Notes payable	$ 23,734,000	$ 3,536,000
Current portion of long-term debt	7,686,000	2,425,000
Accounts payable	31,070,000	30,785,000
Accrued expenses	33,621,000	21,994,000
Taxes:		
Income	13,081,000	14,700,000
Other	28,186,000	22,759,000
Cash dividends payable	4,597,000	4,239,000
Current portion of reserve for discontinued operations	3,987,000	5,997,000
Total current liabilities	**145,962,000**	**106,435,000**
Long-term debt, due after one year	**110,176,000**	**115,016,000**
Reserve for discontinued operations	**19,687,000**	**23,168,000**
Other long-term liabilities and deferred income	**2,146,000**	**5,876,000**
SHAREHOLDERS' EQUITY		
Preferred stock	9,592,000	13,039,000
Common stock	9,998,000	9,854,000
Additional paid-in capital	130,760,000	117,789,000
Retained earnings	90,735,000	80,251,000
Total shareholders' equity	**241,085,000**	**220,933,000**
	$519,056,000	**$471,428,000**

See accompanying notes and summary of accounting policies.

Heublein

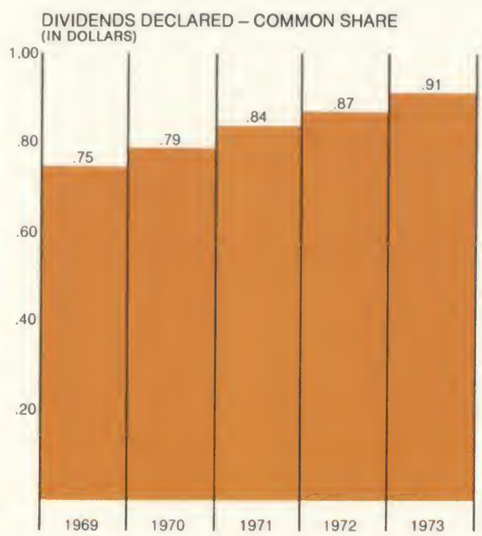
CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

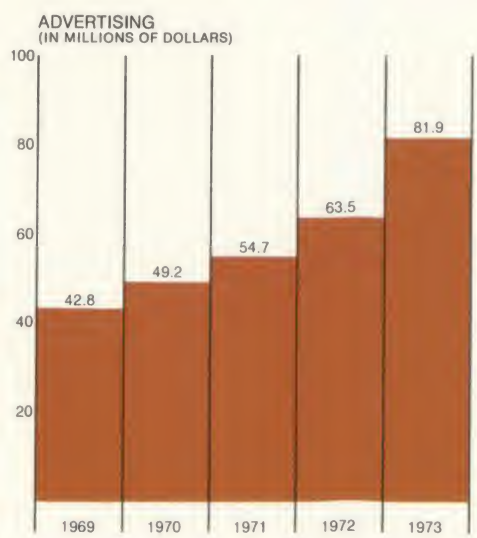
	Years ended June 30, 1973	1972
Balance at beginning of year as previously reported	**$117,789,000**	**$ 42,566,000**
Adjustments relating to pooled companies	—	3,693,000
Excess of option price over stated value of common stock issued on exercise of options	5,951,000	3,506,000
Excess of par or stated value of debentures and preferred stock over stated value of common stock exchanged, less unamortized balance of underwriting costs	664,000	66,933,000
Difference between par or stated value and cost of preferred stock purchased	—	639,000
Tax benefit from disqualifying dispositions of shares issued under stock option plans	735,000	—
Excess of market over stated value of shares issued for purchase of subsidiary	5,609,000	—
Other	12,000	452,000
Balance at end of year	**$130,760,000**	**$117,789,000**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Years ended June 30, 1973	1972
Balance at beginning of year as previously reported	**$ 80,251,000**	**$ 74,505,000**
Retained earnings of companies acquired as poolings of interests	—	1,385,000
Net income	28,579,000	20,580,000
Cash dividends declared:		
Common stock – $.91 per share ($.87 in 1972)	(18,095,000)	(15,921,000)
Preferred stock	—	(293,000)
Dividends of pooled companies prior to acquisition	—	(5,000)
Balance at end of year	**$ 90,735,000**	**$ 80,251,000**

See accompanying notes and summary of accounting policies.





Heublein

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years ended June 30, 1973	1972
SOURCES OF WORKING CAPITAL		
Operations:		
Income before extraordinary charge	$ 42,379,000	$ 35,830,000
Charges not requiring funds:		
Depreciation and amortization	14,350,000	13,970,000
Other	4,322,000	231,000
Funds provided from operations before extraordinary charge	61,051,000	50,031,000
Extraordinary charge	13,800,000	15,250,000
Less charge not requiring funds	13,800,000	7,943,000
Extraordinary charge requiring current funds	—	7,307,000
Funds provided from operations – net	61,051,000	42,724,000
Proceeds from exercise of stock options	6,034,000	3,561,000
Proceeds from sale of stock by pooled companies prior to acquisition	—	41,000
Book value of assets sold	1,472,000	13,616,000
Increase in long-term debt	6,716,000	178,951,000
Market value of common stock used in purchase acquisitions	5,659,000	—
Increase in common stock and additional paid-in capital resulting from conversions and retirements of debentures and preferred stock	674,000	69,946,000
Tax benefit from disqualifying dispositions of shares issued under stock option plans	735,000	—
Issuance of Series A preferred stock in settlement of contingent tax liability	86,000	1,977,000
Other	—	1,538,000
	82,427,000	**312,354,000**
USES OF WORKING CAPITAL		
Cash dividends	18,095,000	16,214,000
Purchase of preferred stock and partial redemptions of series preferred stock	2,819,000	5,058,000
Repayment of long-term debt	11,556,000	117,134,000
Additions to property, plant and equipment	36,554,000	28,626,000
Reduction of long-term portion of reserve for discontinued operations	3,481,000	—
Conversions of debentures and preferred stock	714,000	69,415,000
Investment in and advances to affiliated companies	1,514,000	985,000
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	30,470,000	4,272,000
Other	96,000	1,956,000
	105,299,000	**243,660,000**
Increase (decrease) in working capital	**$ (22,872,000)**	**$ 68,694,000**
CHANGE IN WORKING CAPITAL		
Cash and marketable securities	$ (11,640,000)	$ 10,487,000
Accounts and notes receivable	10,372,000	8,411,000
Inventories	15,177,000	14,083,000
Prepaid expenses	2,746,000	(377,000)
Notes payable and current portion of long-term debt	(25,459,000)	46,314,000
Accounts payable, accrued expenses and taxes	(15,720,000)	(5,714,000)
Cash dividends payable	(358,000)	(1,533,000)
Current portion of reserve for discontinued operations	2,010,000	(2,977,000)
Increase (decrease) in working capital	**$ (22,872,000)**	**$ 68,694,000**

See accompanying notes and summary of accounting policies.

SUMMARY OF ACCOUNTING POLICIES

The major accounting policies of the Company are summarized below to assist the reader in understanding the financial information presented in this report.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries.

Current assets and liabilities of foreign subsidiaries are translated into United States dollars at year-end exchange rates, noncurrent assets and related depreciation and amortization and liabilities at rates in effect at the time of the transaction, and operations at rates prevailing during the year. Translation gains and losses are reflected in earnings.

The Company's investments in affiliated companies (not majority owned) are carried at its equity in their net assets and the Company's operating results include its share of their net income.

Property, Plant and Equipment
Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Renewals of a major nature and betterments which extend their useful lives are capitalized. Provisions for depreciation and amortization are generally computed by the straight-line method over the estimated useful lives of the respective assets. On sale or retirement, the asset cost and related reserve are removed from the accounts and any related gain or loss is reflected in income.

Cost In Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises
Cost in excess of net assets of purchased businesses aggregating $15,084,000 arising from transactions prior to November 1, 1970 is not being amortized as, in the opinion of management, there has been no diminution in value. The balance is being amortized over periods ranging from 20 to 40 years.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 30 years.

Franchise Fees
Monthly franchise fees are accrued currently based on sales of the franchisees and initial franchise fees are recorded as income on the date the store is opened by the franchisee.

Taxes
Deferred income taxes arising from timing differences between financial and tax reporting amounted to $4,322,000 in 1973 and $1,109,000 in 1972. The investment tax credit is deducted from the current provision for federal income taxes.

Net sales include excise taxes of $280,189,000 in 1973 and $240,155,000 in 1972.

Pension Costs
Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund the amounts accrued.

Earnings Per Share
Earnings per share are based upon the Company's average number of shares of common stock outstanding during the year, and the average shares issuable on the exercise of dilutive stock options and upon conversion of the Series B preferred shares and additional shares that would be issued under contingent payout provisions for pooled companies. Earnings per share assuming full dilution were $2.05 and $1.81 before extraordinary charges in 1973 and 1972, respectively, and $1.42 and $1.06 on net earnings in 1973 and 1972, respectively, based on the further assumptions that all remaining outstanding dilutive convertible securities had been converted and that certain additional dilutive stock options had been exercised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions
In fiscal 1972, the Company acquired Kentucky Fried Chicken Corporation (KFC) and subsequently acquired three KFC franchisees in exchange for 5,489,477 shares and 216,525 shares of common stock, respectively. In fiscal 1973, the Company acquired three groups of companies in exchange for an aggregate of 386,142 shares of common stock. These acquisitions have been accounted for as poolings of interests. Accordingly, the consolidated financial statements have been restated to include the operations of these companies.

In October 1972, two groups of companies were purchased in exchange for an aggregate of 99,000 shares of common stock (market value $5,659,000). In April 1973, the purchase of two additional groups of companies, as of January 1, 1973, for approximately $31,500,000 in cash was completed. The combined net assets of the groups acquired at the dates of acquisition amounted to approximately $13,300,000. Their results of operations, which were not material, have been included since the respective dates of purchase. The results of their operations prior to their acquisitions would not materially affect the Company's historical results. In addition the Company purchased the minority interest in a foreign subsidiary for approximately $5,610,000. These acquisitions resulted in an increase in cost in excess of net assets of purchased businesses of approximately $29,200,000.

Foreign Subsidiaries
The accompanying consolidated financial statements include the accounts of the Company's foreign subsidiaries for 1973 as follows: total assets – $75,859,000; net tangible assets – $19,220,000; revenues – $56,056,000; provision for foreign income taxes – $1,678,000; and net income – $510,000. Amounts for fiscal 1972 were not material.

Provision for foreign income taxes is made where applicable; however, no provision for U.S. income taxes has been made on the undistributed earnings of foreign subsidiaries since substantially all of such earnings, exclusive of amounts which may be required to be remitted to the U.S. under the foreign direct investment regulations, are intended to be reinvested abroad. At June 30, 1973, the undistributed earnings of such subsidiaries aggregated approximately $3,800,000.

Discontinued Operations and Extraordinary Charge
In fiscal 1971, KFC decided to discontinue operating its owned roast beef and domestic fish and chips outlets and its three motor hotels, and KFC's management provided for estimated losses of $13,000,000 ($6,500,000 net of tax) to cover operating losses until their disposition, and losses on disposal of equipment, other

assets and on sub-leasing. In December, 1971, it was determined that an additional $32,500,000 ($15,250,000 net of tax) would be required. Losses incurred subsequent to this decision and costs and expenses incurred in dispositions were charged against the reserve ($5,491,000 and $12,231,000 in fiscal 1973 and 1972, respectively). Management believes that the remaining reserve will be sufficient to complete the discontinuance of these operations.

Due to heavy competition from national brewers, coupled with rising costs, the Company's beer operations (Hamm's) experienced a loss in 1972 which increased in 1973 In the latter part of fiscal 1973, management began to explore the sale of Hamm's and has now concluded that it will dispose of the business. It is expected that the sale of Hamm's as an ongoing business can be consummated on an acceptable basis in fiscal 1974. In this connection, management has made a provision of $26,600,000 ($13,800,000 net of tax) in the accompanying 1973 consolidated statement of income for the costs and losses (including estimated operating losses after June 30, 1973) which it conservatively anticipates will be incurred to accomplish the disposal. Operations have been segregated from continuing operations and are reflected in the accompanying consolidated statement of income as "Hamm's operating loss, less tax effect". The related net assets at estimated realizable value and the related tax benefit are included in other assets as "Properties and other assets not used in continuing operations – net" and "Deferred income taxes", respectively, in the June 30, 1973 balance sheet. Additional amounts under these captions for 1973 and 1972 represent assets relating to the company-owned KFC fish and beef stores.

Long-Term Debt

Long-term debt due after one year follows:

	June 30, 1973	June 30, 1972
4½% convertible subordinated debentures, due May 15, 1997	$100,000,000	$100,000,000
Other:		
Notes payable to banks	—	2,330,000
Mortgage notes payable in various installments	6,355,000	9,385,000
Other	3,821,000	3,301,000
	$110,176,000	$115,016,000

In 1972 the Company called its 5¾% subordinated debentures for redemption, and substantially all of the debentures were converted into 1,181,894 shares of common stock.

The 4½% subordinated debentures, issued in May 1972, are convertible into common stock at approximately $69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

Mortgage notes payable are collateralized by deeds of trust, leasehold improvements, buildings, equipment, a wine tanker and other assets with a net carrying amount of approximately $9,521,000 at June 30, 1973.

Under the most restrictive provision of the long-term borrowing agreements, $60,143,000 of retained earnings was available for payment of cash dividends at June 30, 1973.

Aggregate maturities of long-term debt for the next five fiscal years are: 1974 – $7,854,000; 1975 – $1,739,000; 1976 – $1,567,000; 1977 – $1,511,000; and 1978 – $462,000.

Capital Stock

A summary of capital stock follows:

	June 30, 1973	June 30, 1972
Series preferred stock – 5,000,000 shares authorized:		
Series A convertible, non-dividend, stated value $10 per share, each share convertible into .10 share of common stock, outstanding 1,703,983 shares in 1973 and 1,696,281 shares in 1972	$7,422,000	$10,149,000
Series B convertible, non-dividend, stated value $10 per share, each share convertible into .2974 share of common stock, outstanding 217,004 shares in 1973 and 289,010 shares in 1972	2,170,000	2,890,000
Total preferred stock	$9,592,000	$13,039,000
Common stock – stated value $.50 per share, authorized and issued in 1973 – 30,000,000 and 19,997,877 shares, respectively, and in 1972 – 25,000,000 and 19,708,534 shares, respectively	$9,998,000	$ 9,854,000

Under the terms of a contingent tax liability holdback agreement related to the Company's acquisition of Heublein Allied Vintners, Inc. and its subsidiary, United Vintners, Inc., the Company issued 153,840 shares of Series A Convertible Preferred Stock in fiscal 1972 and made a final distribution of 8,549 additional shares in fiscal 1973.

Each Series A preferred share is partially redeemable at the option of the holder at the rate of ⅙ per year after November 1, 1969. No reduction in the number of shares outstanding is affected by these partial redemptions which totaled $9,618,000 through June 30, 1973. Series B preferred stock is redeemable in sub-series at the rate of ⅕ per year after November 1, 1970 of which $63,000 has been redeemed through June 30, 1973. The Company has the option to redeem both classes in whole or in part for $10 per share beginning November 1, 1976, less any amounts theretofore paid in partial redemption. During fiscal 1973, 847 shares of Series A and 70,682 shares of Series B preferred stock were converted into 20,406 shares of common stock.

In 1972, pursuant to an offer by the Company, 74,681 shares of 5% preferred stock were exchanged for 145,375 shares of common stock, and 25,563 shares were purchased and retired. Also, all of the then outstanding shares of 5% convertible preferred stock were converted into 647,940 shares of common stock. At June 30, 1973, the Company had 500,000 shares of 5% preferred and 200,500 shares of 5% convertible preferred stock authorized but unissued.

The 1971 Stock Option Plan provides for the granting of options for the purchase of 500,000 shares of common stock to officers and other key employees at an option price of not less than 100% of the fair market value of the Company's common stock at the date of grant. The 1971 Plan provides for the granting of both qualified and non-qualified options. The terms of the qualified and nonqualified options may not exceed five years and ten years, respectively.

Heublein

The following table sets forth information pertaining to options to purchase common shares under this plan as well as previous qualified stock option plans and substitute stock options for 73,444 shares granted in connection with the acquisition of KFC:

	1973	1972
Outstanding options at July 1	697,475	418,830
Granted	186,000	471,338
Exercised	(166,275)	(110,416)
Surrendered or forfeited	(50,245)	(82,277)
Outstanding options at June 30	666,955	697,475
Price of options exercised during year	$28.07 to $45.05	$16.63 to $45.05
Average price per share	$36.30	$32.26
At June 30:		
Prices of outstanding options	$27.13 to $100.00	$27.13 to $100.00
Average price per share	$47.52	$42.64
Exercisable options	189,651	192,531
Options available for future grant	310,861	464,939

At June 30, 1973, shares of common stock were reserved as follows:

Conversion of outstanding:	
4½% convertible subordinated debentures	1,438,800
Series A convertible preferred stock	74,221
Series B convertible preferred stock	64,537
Stock Options	977,816
Contingent payout provisions of acquisition agreements	72,889
	2,628,263

Leases and Commitments

At June 30, 1973, the Company was a lessee under numerous leases having terms expiring from 1974 through 2000. Aggregate minimum rentals (excluding payments for real estate taxes, maintenance and insurance required under certain leases) are: 1974 – $16,073,000; 1975 – $14,819,000; 1976 – $12,237,000; 1977 – $10,611,000; 1978 – $10,087,000; and thereafter in decreasing amounts aggregating $88,100,000 through 2000.

On July 2, 1973, the Company entered into a definitive agreement to acquire Davis Food Service, Inc. (Davis) in exchange for approximately 788,000 shares of common stock subject to Davis' shareholders approval. This transaction, which will not have a material effect on the Company's consolidated financial statements, will be accounted for as a pooling of interests.

Litigation

The Company is a defendant in a class action in which the complaint alleges violations of Federal anti-trust laws and is a defendant in other litigation in which aggregate alleged damages are substantial. Based upon the advice of counsel, management believes that the Company has adequate defenses and no material liability will result from such litigation.

On December 7, 1972, the Federal Trade Commission filed a complaint charging a violation of Section 7 of the Clayton Act in connection with the Company's 1968 acquisition of a controlling interest in United Vintners, Inc. The complaint seeks to require divestiture of the Company's interest in United Vintners and prohibit for 10 years the acquisition of other companies producing or selling domestic wine. Management, with the advice of counsel, believes that the acquisition does not violate any Federal statute. Management intends to assert a vigorous defense and believes that there will be no material effect on the Company's financial position.

Retirement and Profit-Sharing Plans

The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by various union pension plans; KFC employees became covered effective July 1, 1972. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension expenses under all these plans amounted to $4,693,000 in 1973 and $2,463,000 in 1972.

Under the Company's profit-sharing plan for salaried employees, the Company's basic contribution is at least equal to 5% of the participants' salaries plus a supplemental contribution with the total contribution limited to 8% of total salaries. Contributions to the plan amounted to $2,626,000 in 1973 and $1,614,000 in 1972.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N.Y. 10017

Board of Directors and Shareholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1973 and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1973 and the consolidated results of operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

New York, N.Y.
July 19, 1973

FIVE YEARS OF GROWTH

Dollars in thousands except per share statistics	**1973**	1972	1971	1970	1969
Revenues*	**$1,004,646**	$838,369	$721,222	$659,377	$571,678
Income from continuing operations	**44,531**	37,578	26,658	29,351	27,234
Net income	**28,579**	20,580	21,307	31,364	30,922
Income as a percent of revenues*	**4.43%**	4.48%	3.70%	4.45%	4.76%
Group contributions to revenues:*					
Beverage group	**59%**	61%	62%	61%	63%
Food group	**35%**	35%	35%	37%	36%
International group	**6%**	4%	3%	2%	1%
Group contributions to operating income:*					
Beverage group	**43%**	46%	50%	43%	43%
Food group	**50%**	50%	46%	53%	55%
International group	**7%**	4%	4%	4%	2%
Common dividends declared	**18,095**	15,921	9,554	8,586	7,774
Earnings retained in the business*	**26,436**	21,364	16,026	19,388	16,727
Taxes of all kinds*	**337,373**	290,328	248,359	236,293	213,846
Capital expenditures	**36,554**	28,626	44,679	68,239	34,679
Depreciation*	**11,342**	9,896	10,114	9,608	6,476
Average common shares outstanding	**20,172,991**	18,796,677	17,687,167	17,202,285	16,849,259
Per share:					
Income from continuing operations	**2.21**	1.98	1.45	1.63	1.45
Net earnings	**1.42**	1.08	1.14	1.74	1.67
Common dividends declared	**.91**	.87	.84	.79	.75
Income taxes*	**2.41**	2.18	1.65	1.94	1.92
Net fixed assets	**142,058**	143,297	153,564	155,880	111,840
Working capital	**123,619**	146,491	77,035	83,172	47,786
Current asset ratio	**1.8 to 1**	2.4 to 1	1.6 to 1	1.7 to 1	1.4 to 1
Return on shareholders' equity *	**19.3%**	19.4%	16.3%	19.4%	19.0%
Worldwide employment	**16,600**	15,752	15,194	14,093	12,154
Common shareholders	**27,142**	28,649	32,031	28,231	28,191

*Based on continuing operations.

Heublein

On August 2, 1973, after the close of the fiscal year, the Board of Directors elected Hicks B. Waldron, Jr., president of Heublein, Inc., succeeding Stuart D. Watson, who moved up to chairman of the board. Mr. Watson will continue as Heublein's chief executive officer, and Mr. Waldron will be chief operating officer, a member of the Board of Directors and of its Executive Committee. The position of board chairman was reinstituted after being discontinued in 1970 with the retirement of Ralph A. Hart. Mr. Waldron, 49, formerly was vice president and group executive for consumer products at the General Electric Company. He is a graduate of the University of Minnesota, and spent his entire career with General Electric prior to joining Heublein.

DIRECTORS

Christopher W. Carriuolo
Peter M. Fraser*
Edward H. Hamm
Leon W. Harman
Ralph A. Hart*
John G. Martin*
Arthur A. Milligan
William H. Mortensen*
Frances Heublein O'Dell
Barry M. Rowles
Lester E. Shippee*
Robert L. Trescher*
Hicks B. Waldron, Jr.*
Stuart D. Watson*
William T. Young

*Members of Executive Committee

CORPORATE OFFICERS

Stuart D. Watson
Chairman & Chief Executive Officer

Hicks B. Waldron, Jr.
President & Chief Operating Officer

Christopher W. Carriuolo
Group Vice President
Beverage Group

Paul R. Dohl
Group Vice President
International Group

Barry M. Rowles
Group Vice President
Food Group

Richard M. Oster
Senior Vice President
Chairman and President
United Vintners, Inc.

John R. Bifone
Vice President
Management Information Services

George J. Caspar
Vice President,
Secretary and General Counsel

Gene R. Ehnen
Vice President and Controller

Richard C. Farr
Vice President – Human Resources

J. Richard Grieb
Vice President
President
Smirnoff Beverage & Import Co.

Charles J. Herbert
Vice President
President
Theodore Hamm Company

Joseph M. McGarry
Vice President
Communications & Public Affairs

Michael A. Miles
Vice President
General Manager
Consumer Products Division

John J. Moran
Vice President – Financial Planning

Kurt E. Volckmar
Vice President
Executive Vice President
Heublein International, Ltd.

James Wille
Vice President
President
Kentucky Fried Chicken Corp.

John R. Graham, Jr.
Treasurer

PRINCIPAL OFFICES AND PLANTS

Corporate Headquarters
Farmington, Conn. 06032 – Code 203 677-4061

Consumer Products Division
430 New Park Avenue, Hartford, Conn. 06101 – Code 203 233-7531

Heublein International, Ltd. Headquarters
Farmington, Conn. 06032 – Code 203 677-4061

Kentucky Fried Chicken Corporation
1441 Gardiner Lane, Louisville, Ky. 40213 – Code 502 459-8600

Smirnoff Beverage and Import Co. Headquarters
330 New Park Avenue, Hartford, Conn. 06101 – Code 203 233-7531

United Vintners, Inc. Headquarters
601 Fourth St., San Francisco, Calif. 94107 – Code 415 421-3213

ANNUAL SHAREHOLDERS' MEETING

The annual meeting of shareholders of Heublein, Inc., will be held at 10 a.m., Thursday, October 25, 1973, in the Main Ballroom of the Holiday Inn, 50 Morgan Street, Hartford, Conn.

Transfer Agents

The Bank of New York
90 Washington Street, New York, New York 10015

Bank of America, N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94105

Third National Bank in Nashville
Uptown Station, P.O. Box 2844, Nashville, Tennessee 37219

Registrars

Morgan Guaranty Trust Company of New York
30 West Broadway, New York, New York 10015

Wells Fargo Bank, N.A.
475 Sansome Street, San Francisco, California 94111

First American National Bank
326 Union Street, Nashville, Tennessee 37237

Trustee for 4 ½% Convertible Subordinated Debentures

United States Trust Company of New York
48 Wall Street, New York, New York 10015

With the steady growth of the company, Heublein recently moved the headquarters for its worldwide operations to this new office in Farmington, Conn., on the outskirts of Hartford.

HEUBLEIN INC. FARMINGTON CONNECTICUT 06032